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Crossing the Line: New Challenges for Sugar

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Summary

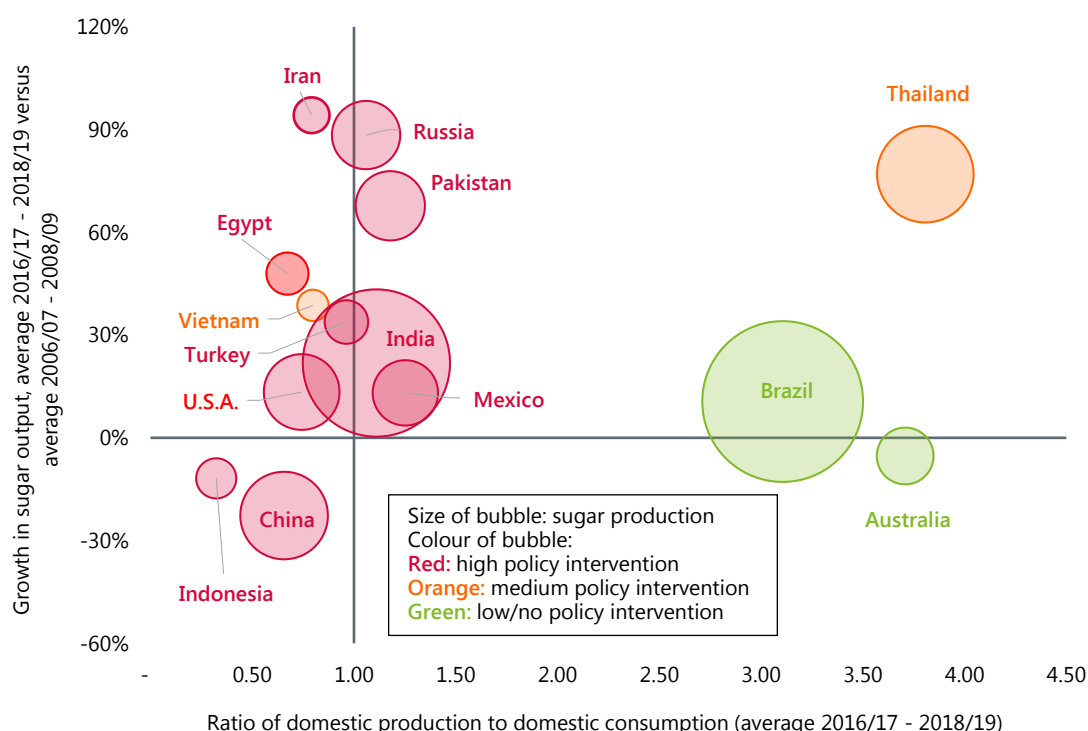
For sugar industries that enjoy a degree of domestic market protection, becoming an exporter is a real challenge. Absorbing the decline in prices that the transition brings may upset domestic stakeholders – but avoiding this via additional support measures risks provoking the wrath of the world's major exporters.

Which sugar industries have exhibited the greatest growth in sugar production over the last ten years? The question touches on an array of strategically relevant issues for sugar industry players. It highlights where profits are being made and where investment is taking place; it points to where trade flows may shrink or grow in the future; and, in a sector renowned for government intervention, it reflects the successes and failures of national sugar policies.

We examined the growth of sugar production around the world, focusing on industries averaging over 1.0m metric tons output per year in the period 2016/17-2018/19. The top 5 were Iran, Russia, Thailand, Pakistan, and Egypt – not the usual suspects (with the exception of Thailand) in any list of top sugar players.

What spurred their growth? Improved technical performance surely contributed, fostered by protection of the domestic market, plus – with the exception of Thailand – a very high proportion of total industry sales being made in the domestic market (see Figure 1).

Figure 1: Growth in sugar production vs. distribution of sugar sales between domestic and export markets



Source: F.O. Licht, Rabobank 2019

Russia and Pakistan moved from being regular importers a decade ago to becoming more than self-sufficient, generating surpluses to export. In the context of Figure 1, the ratio of their output to their domestic consumption is now more than 1.0 – they have crossed the line.

Crossing the line is a big event, and potentially disruptive. Exposure to the export market is a rude shock for industries in which margins are sustained more by high prices than by a highly competitive cost structure. Indeed, if crossing the line is anything more than temporary, it may ultimately force substantial changes in industry policy through the impact that the transition has both within the country and/or beyond its borders. Current examples are India and Mexico.

Policy intervention is extensive in India – most notably in the form of high, fixed prices for cane. Yields have structurally improved recently, via use of new cane varieties. India has long been a sporadic exporter, but the latest surge in output has saddled the country with an enormous exportable surplus at a time when world prices are nowhere near the level necessary to cover production costs. The result has been further interventions by the government to subsidize exports and to regulate domestic sales so as to control prices – prompting the opening of proceedings against India in the WTO by Brazil, Australia, and others.

Surplus production has highlighted vulnerabilities in Mexico's cane and sugar policies – the country has access to the US market for a portion of its exportable surplus, but it is nevertheless facing the prospect of large world-priced exports in 2019 which will inevitably bring average per-ton industry revenue down. This will translate into lower cane prices, and cane growers have already taken action to block warehouses in order to stop domestic prices from sagging under the weight of accumulating stocks. (For more details, see our recent publication [*Are Industry Divisions and Market Forces Crushing the Mexican Sugar Sector?*](#))

These examples (and there are others) highlight the challenge of crossing the line. Absorb the decline in prices that the shift from importer to exporter implies, and risk upsetting domestic stakeholders – at least in industries dependent on small growers; but implementing additional policy measures to avoid this could provoke the wrath of the world's major exporters. It therefore seems very unlikely that future growth in Russia and Pakistan will match growth over the last decade. Iran and Egypt, however, still have space to grow before they risk crossing the line.

What about other players on either side of the line? Thailand's spectacular growth has been driven by inherent competitiveness plus a degree of domestic market protection, a top-up fund for cane payments, and the benefit of a price premium for export sales made in the Far East region as a result of that region's persistent sugar deficit. However, control of domestic sales prices was dropped in 2018, following the threat of WTO proceedings, and the top-up fund is no longer government-backed. Recent growth has left Thailand even more exposed to the world market than Brazil and Australia. Are future returns seen as sufficient for farmers to plant more cane and for investors to construct more mills?

Despite very high sugar prices (average USD 790/metric ton in 2018), and concomitant high cane and beet prices, China has seen total sugar production decline. Elsewhere, Indonesian production has stagnated while consumption has boomed, turning the country into a contender – together with China – for the position of world's leading importer of sugar. Both countries' industries, despite enjoying considerable levels of protection, are in no imminent danger of crossing the line – giving the world's exporters at least some reason to be cheerful.

Imprint

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